



# **USAID** | **INDONESIA**

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## **Speech**

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Good morning ladies and gentleman, VP Kalla, Coordinating Minister Bakrie, my old-friends Sofian Wanandi, Minister Pangestu and Minister Sri Mulyani, and our close partners KPPOD, KADIN, and The Asia Foundation.

Today, we will recognize some of the individuals and some of the Kota and Kabupaten that are models in Indonesia. Together they are taking steps to build stronger local and national economies. They are creating an environment that invites business, and which creates jobs that lead to prosperity.

KPPOD, Pak Agung and his team have conducted thousands of interviews in 200 localities, and their conclusions will be presented shortly. This is the third year of this national study, which we believe informs the national dialogue that will lead to an improved business climate.

This year, for the first time, KPPOD has taken a closer look at some of the Kota and Kabupaten, in order to draw conclusions about the leadership, the business environment,



# USAID | INDONESIA

FROM THE AMERICAN PEOPLE

the municipal services such as education and health, and the other variables that

distinguish the best performers from their peers. This will influence our future programming as we capitalize on this knowledge to improve the business climate nationwide.

The President, the Vice President, and the cabinet have expressed firm commitment to making Indonesia a better place to do business. The President has pledged to make Indonesia more competitive. Helping Indonesian business to compete in order to drive growth, jobs and prosperity is among USAID's foremost objectives in Indonesia.

Since taking office, the Government has notched some notable successes. Economic growth accelerated in the fourth quarter of 2004, lifting the annual rate to 5.1%. Since November, all of the major international rating Agencies have boosted Indonesia's sovereign rating to the equivalent of B+. Less than two weeks ago, Indonesia was removed from the international black-list of non-cooperating countries because of its strident efforts to combat financial crime and corruption.

A mood of optimism is palpable, and I share this hope for Indonesia. As many of you know, I have a long history with Indonesia. I worked in Jakarta for eight years during the mid and late 1980's. Given this perspective, I have never been more confident than I am today. The Government has advanced a sound economic program that is sensible and practical. The Government, in its first hundred days, has produced credible results that will fuel further gains. The perception of Indonesia in the international marketplace is



# USAID | INDONESIA

clearly changing, as evidenced by the rating upgrades. The government must now work with increasing vigilance to ensure that reality continues to match perception. Efforts to further improve and strengthen the investment and business climates are essential.

As has often been quoted, the World Bank estimates that it takes 570 days to enforce a contract, and costs on average 126% of the contract value. Enforcing a bankruptcy takes more than 6 years, well above the regional average, and yields only 10 cents on the dollar. These barometers of the investment climate are closely-watched by the international community, and by many donors, including USAID.

Whereas improving these indicators of the investment climate is the object of USAID efforts, I am pleased that momentum is building behind reforms to improve the climate for small and medium-sized business, as well as for larger enterprises. The government has pledged ongoing support for reforms that directly effect business, and this means reforms that drive the micro-economy and which translate directly into growth, jobs and income.

A first step in the process, is getting business to register. Registered businesses have access to credit and therefore can grow more quickly. Registered businesses tend to implement better practices with regard to labor. And registered businesses are more likely to pay their taxes and therefore contribute to a stronger and more stable Indonesia. Yet, the World Bank reports that registering a business in Indonesia is complicated, lengthy, and expensive. It takes a minimum of 12 procedures and 151 days.



# USAID | INDONESIA

FROM THE AMERICAN PEOPLE

Local governments can improve, and with KPPOD and The Asia Foundation, USAID is keen to assist.

With USAID support, TAF has already established about fifteen one-stop-shops for various business, industry and other forms of registration. The results are very powerful:

- The time to register a company has been cut by 60%, and on average now takes 15 days.
- Cost has been reduced an average of 30%,
- Nearly 70% of the firms reported higher profits, higher employment, and 75% report paying higher salaries after they register.
- The one-stop shops produce growth, jobs and prosperity.

In addition to removing the obstacles to business licensing at the national and sub-national levels, the Government is working to remove “behind the border” obstacles to economic growth, trade and commerce. In a newspaper article last week (Jakarta Post February 14<sup>th</sup>) Minister Pangestu drove this point home.

Decentralization was necessary and it brought substantial democratic gains. Yet, decentralization has witnessed a startling increase in nuisance taxes and levies at the local and provincial levels. It’s now more expensive to ship east Java apples to the capital, than it is to ship apples from New Zealand because many kecamatan and kabupaten along the road from Malang to Jakarta now levy a fee or tax. Nuisance fees and taxes strangle domestic trade and threaten to make Indonesian exports less competitive.



# USAID | INDONESIA

FROM THE AMERICAN PEOPLE

Consistent with Minister Pangestu's Initiative, USAID will assist in reducing and removing unnecessary regulation, and nuisance taxes. This will reduce friction that prevents efficient markets from functioning.

As I said at the opening, I am confident that a resolute Government will consolidate progress, that it will capitalize on increasingly favorable worldview, and that this will generate growth, jobs and prosperity. USAID is prepared to be a partner in this process.

Thank you.